



WEEKLY OUTLOOK



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HOG PRODUCERS CAN'T GET A BREAK

H1N1 and rising feed prices have once again put the pork industry into deep losses. This continues the red ink dating back to the fall of 2007. While recovery in hog prices is expected as the world tries to return to more normal consumption, the financial stress may be near a breaking point for some producers.

Hog prices were ready to turn upward, and then on April 24, 2009 there was the first word of a human disease the media had called "Swine Flu." Lean carcass values closed that Friday at \$61, but just seven trading days later, prices had dropped by \$10. World health representatives and the media were quick to respond to pork producers' outcry regarding how a simple name could damage their industry. Even with conscious efforts in the media, it was about a week before "H1N1" became the accepted term.

Much damage was done to pork's image and to consumer demand. The longest lasting damage will likely be in the export markets which had been such strong demand points, as a record 20 percent of U.S. production headed for foreign markets in 2008. In the domestic market, pork buyers at grocery stores and restaurants were cautious as they did not know how consumers would react. This, in combination with reduced exports, caused a backup of pork in the wholesale market. Wholesale prices dropped about seven percent, but farm level hog prices dropped by 17 percent.

Now, a month later, markets continue to digest the implications and adjust. By mid-May, carcass prices actually moved higher than their April 24 benchmark for a few days, but were viewed as too optimistic. As of May 22, carcass prices were down eight percent from April 24.

While the hog industry focus has been on H1N1 over the past month, rising feed prices have been a growing threat to profitability as well. From April 24 to May 22, July corn futures rose by \$.45 per bushel and July soybean meal futures by \$57 per ton. On April 24, hog producers were losing about \$5 per head. Now, that number is about \$25 per

head. The composition of the added \$20 per head was about \$10 due to lower hog prices and another \$10 due to higher feed prices.

Now what? Pork producers expected to finally see some black ink in May. The month of May turned out to be another bleak one with massive negative cash flows for most producers. Most everyone in the industry has been financially weakened. The outlook is more uncertain than usual. Recovery in pork prices should be the norm as U.S. consumer's return to more normal buying patterns. World consumers, who had already reduced their purchase from the U.S. in the first quarter by seven percent, probably will take longer to return to normal buying patterns.

Live hog prices in the second quarter are expected to average in the mid \$40s, but considerable recovery may come in June with prices moving up toward the very high \$40s and low \$50s. Prices are expected to average in the very low \$50s in the third quarter and then finish the year in the mid-to higher \$40s. Prices are expected to continue to improve in the spring and summer of 2010 with prices moving into the mid \$50s.

Feed prices remain a major concern. With current futures prices for corn and soybean meal adjusted to cash prices, the costs of production are currently estimated at about \$50 and moving higher to about \$52 this summer. Fall estimated costs are near \$50. Unfortunately, these costs are higher than expected hog prices for the rest of this year and through the first quarter of 2010. Losses for the last-half of this year are estimated at \$7 per head. For the entire year of 2009, losses would be \$12 per head compared with \$17 per head of estimated loss in 2008.

The pork industry has been forced to adjust to three major shocks in the past two years: sharply rising feed costs, the world financial crisis, and now H1N1. Some adjustments toward smaller pork supplies were underway, but now even greater financial losses are causing discouragement to intensify. Each hog producer has to be measuring how long they can continue in the industry. And now, uncertain feed costs add even more anxiety. Additional trimming of the breeding herd is likely to occur throughout this year.

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